

UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF CALIFORNIA

ElastiFlow, Inc. v. Smith

ElastiFlow · No. 25-cv-01429-JSC · Decided June 5, 2025

SUMMARY

The United States District Court for the Northern District of California rules on Elastiflow, Inc.’s motions to dismiss counterclaims brought by former employees Alexander Germain and Duvall Smith. The court denies dismissal of the trade-secret declaratory counterclaims and permits Smith’s copyright-ownership counterclaim to proceed. It dismisses only the portion of Smith’s copyright counterclaim seeking a declaration that Elastiflow or third parties must obtain a license to use the source code.

CASE DETAILS

COURT	United States District Court for the Northern District of California
WRITING FOR THE COURT	Jacqueline Scott Corley
JURISDICTION	United States District Court for the Northern District of California
DECIDED	June 5, 2025
DOCKET	25-cv-01429-JSC
DISPOSITION	other
PROCEDURAL POSTURE	Plaintiff moved under Federal Rule of Civil Procedure 12(b)(6) to dismiss defendants' declaratory-judgment counterclaims concerning trade-secret misappropriation, copyright ownership, and licensing rights.
STANDARD OF REVIEW	On a Rule 12(b)(6) motion to dismiss a counterclaim, the court applies the same standard used to evaluate a motion to dismiss a complaint and draws reasonable inferences in the counterclaimant's favor.
PRECEDENTIAL VALUE	unpublished district court order

TOPICS

- motions to dismiss
- copyright law
- derivative works
- trade secrets
- civil procedure

PRACTICE AREAS

QUESTIONS PRESENTED

1. Whether Germain's and Smith's declaratory counterclaims concerning alleged trade-secret misappropriation should be dismissed because of an action in another forum.
2. Whether Smith plausibly pleaded ownership of the source code despite the 2023 intellectual-property assignment agreement.
3. Whether Smith plausibly pleaded a declaratory claim that ElastiFlow and third parties were required to obtain a license to use the source code and derivative works.
4. Whether Smith could rely on an implied-license theory raised for the first time in opposition to the motion to dismiss.

HOLDINGS

1. The court denied the motion to dismiss Germain's and Smith's declaratory counterclaims concerning trade-secret misappropriation because the cited authorities involved the same parties in both actions, whereas the counterclaim plaintiffs were not parties to the other action.
2. Smith plausibly pleaded a declaratory counterclaim seeking a determination that he authored and owned the source code.
3. Smith did not plausibly plead the portion of his counterclaim seeking a declaration that ElastiFlow and third parties were required to obtain a license to use the code and derivative works.
4. Smith could not avoid dismissal by characterizing the licensing request as an implied-license claim because the Answer did not plead the implied-license issue with sufficient notice.

KEY QUOTATIONS

“The motion to dismiss the trade secret declaratory counterclaims is DENIED.” (at 1)

“At the pleading stage, the Court must draw all reasonable inferences in Mr. Smith’s favor and so cannot determine, as a matter of law, the Code was thereby vested to Elastiflow and its assigns.” (at 3)

“An author gains ‘exclusive rights’ in her work immediately upon the work’s creation, including rights of reproduction, distribution, and display.” (at 4)

“Before pursuing an infringement claim in court, however, a copyright claimant generally must comply with § 411(a)’s requirement that ‘registration of the copyright claim has been made.’” (at 4)

“Mr. Smith plausibly pleads a declaratory judgment counterclaim for copyright ownership but not for licensing.” (at 5)

FACTUAL BACKGROUND

ElastiFlow alleged that its former employees, Alexander Germain and Duvall Smith, violated their employment agreements by using ElastiFlow's proprietary and confidential information. Germain and Smith sought

declaratory relief that they had not misappropriated ElastiFlow's trade secrets. Smith also alleged that he authored and owned source code used for automated testing, that he wrote some or all of it as an independent contractor in 2021 using his own equipment and resources, and that the code formed the foundation of ElastiFlow's products. Smith had signed a 2023 Confidential Information, Intellectual Property, and Invention Assignment Agreement containing a present-assignment provision for qualifying work product.

PROCEDURAL HISTORY

ElastiFlow sued former employees Alexander Germain and Duvall Smith for allegedly violating employment agreements through their use of proprietary and confidential information. Germain and Smith asserted counterclaims seeking declarations concerning trade-secret misappropriation; Smith also sought declarations that he owned certain source code and that ElastiFlow and third parties required a license to use the code and derivative works. The district court denied the motions to dismiss the trade-secret counterclaims and Smith's copyright-ownership counterclaim, but dismissed the licensing portion of Smith's second counterclaim, while allowing amended answers by July 1, 2025 unless the parties stipulated otherwise.

DISPOSITION

other

REMAND INSTRUCTIONS

No remand. Any amended answers were to be filed by July 1, 2025, unless the parties stipulated to a different deadline.

CASES CITED

- Abbyy USA Software House, Inc. v. Nuance Commc'ns Inc., No. 08-cv-01035-JSW, 2009 WL 10691335 (N.D. Cal. Apr. 7, 2009)
- Knapp v. Depuy Synthes Sales Inc., 983 F. Supp. 2d 1171 (E.D. Cal. 2013)
- Qualcomm, Inc. v. GTE Wireless, Inc., 79 F. Supp. 2d 1177 (S.D. Cal. 1999)
- AirWair Int'l Ltd. v. Schultz, 84 F. Supp. 3d 943, 949 (N.D. Cal. 2015)
- Boon Rawd Trading Int'l v. Paleewong Trading Co., 688 F. Supp. 2d 940, 947 (N.D. Cal. 2010)
- Bd. of Trs. of Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc., 583 F.3d 832, 842 (Fed. Cir. 2009), aff'd, 563 U.S. 776 (2011)
- Speedplay, Inc. v. Bebop, Inc., 211 F.3d 1245, 1253 (Fed. Cir. 2000)
- FilmTec Corp. v. Allied-Signal, Inc., 939 F.2d 1568, 1572-73 (Fed. Cir. 1991)
- Fourth Est. Pub. Benefit Corp. v. Wall-Street.com, LLC, 586 U.S. 296, 300-01 (2019)
- Asset Marketing Systems, Inc. v. Gagnon, 542 F.3d 748 (9th Cir. 2008)
- Bell Atl. Corp. v. Twombly, 550 U.S. 544, 555 (2007)
- Conley v. Gibson, 355 U.S. 41, 47 (1957)

OPINION

1 2 3 4 UNITED STATES DISTRICT COURT 5 NORTHERN DISTRICT OF CALIFORNIA 6 7
ELASTIFLOW, INC., Case No. 25-cv-01429-JSC 8 Plaintiff, ORDER RE PLAINTIFF'S
MOTIONS 9 v. TO DISMISS DEFENDANTS' COUNTERCLAIMS 10 DUVALL SMITH, et al.,
Re: Dkt. Nos. 28, 31 Defendants. 11 12 13 Elastiflow sues its former employees Alexander
Germain and Duvall Smith for violating 14 their employment agreements through their alleged use
of Elastiflow's proprietary and 15 confidential information.

(Dkt. No. 15.)¹ Mr. Germain asserts a counterclaim for a declaratory 16 judgment that he did not
misappropriate Elastiflow's trade secrets; Mr. Smith asserts an identical 17 counterclaim and an
additional counterclaim for a declaratory judgment that he is the owner of 18 certain source code
("the Code"). (Dkt. Nos. 22, 27.) Elastiflow now seeks to dismiss all 19 counterclaims against it.

(Dkt. Nos. 28, 31.) Having carefully reviewed the parties' briefing and 20 with the benefit of oral
argument on June 5, 2025, the Court DENIES in part and GRANTS in part 21 Elastiflow's
motions to dismiss. 22 DISCUSSION 23 1.

The motion to dismiss the trade secret declaratory counterclaims is DENIED. 24 Elastiflow does
not cite, and the Court is not aware, of any case dismissing declaratory relief 25 counterclaims in
light of an action in another forum when the counterclaim plaintiff is not a party 26 to that other
action.

The cases Elastiflow cites involve the same parties in both cases. See, e.g., 27 1 Abbyy USA
Software House, Inc. v. Nuance Commc'ns Inc., No. 08-cv-01035-JSW, 2009 WL 2 10691335
(N.D. Cal. Apr. 7, 2009); Knapp v. Depuy Synthes Sales Inc., 983 F. Supp. 2d 1171 3 (E.D. Cal.
2013); Qualcomm, Inc. v. GTE Wireless, Inc., 79 F. Supp. 2d 1177 (S.D. Cal. 1999). 4 2.

The motion to dismiss Mr. Smith's copyright counterclaim is GRANTED in part 5 and DENIED
in part. The counterclaim seeks both (1) judgment that he is the author and owner of 6 the Code
and (2) judgment that Elastiflow and other third parties require a license to use the Code 7 and
derivative works. (Dkt. No. 27 ¶¶ 133-34.) 8 Mr. Smith's copyright counterclaim for ownership is
adequately pled.

AirWair Int'l Ltd. v. 9 Schultz, 84 F. Supp. 3d 943, 949 (N.D. Cal. 2015) ("A motion to dismiss a
counterclaim brought 10 pursuant to Federal Rule of Civil Procedure 12(b)(6) is evaluated under
the same standard as a 11 motion to dismiss a plaintiff's complaint") (citing Boon Rawd Trading
Int'l v. Paleewong Trading 12 Co., 688 F. Supp. 2d 940, 947 (N.D. Cal. 2010)).

He alleges he "wrote a significant amount of 13 code for the automated testing of [Plaintiff's]
products." (Dkt. No. 27 ¶ 128.) And further, that 14 "[a]ll of the... Code is the foundation of
Elastiflow's products and their success, and many 15 subsequent programs are derivative works
of" the Code. (Id.) Mr. Smith alleges he wrote the 16 Code "using his computing equipment, from
his premises, using his internet connection, and other 17 assets owned by [him]." (Id. ¶ 129.)

And that he was an independent contractor with Elastiflow 18 in 2021 when he wrote some or all of the Code. (Id. ¶ 128.) Thus, he alleges the Code “was 19 Smith’s original work of authorship. As such, the... Code vested to Smith as the owner.” (Id. ¶ 20 130.) So, he requests a declaratory judgment determining his authorship and ownership of the 21 Code and, drawing reasonable inferences in his favor, he plausibly pleads both.

22 Elastiflow argues the ownership claim is improperly pled because the Confidential 23 Information, Intellectual Property, and Invention Assignment Agreement (“PIIA”) Mr. Smith 24 signed in 2023, includes the following provision: 25 I agree that [Plaintiff] and its assigns will be the exclusive owner of Work Product[.] ... to the extent [Plaintiff] has not obtained exclusive 26 ownership due to my Company employment, I agree to, and do hereby, assign to the Company and waive any and all IP Rights in my 27 Work Product without further compensation or consideration.

1 equipment, supplies or trade secrets; b) resulting from work [he] perform[s] for the Company; 2 and/or c) relate to the Company’s current or anticipated research and development.” (Id. at 4 n.4.) 3 The language “do hereby assign” effects “a present assignment of [] future inventions[.]” Bd. of 4 Trs. of Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc., 583 F.3d 832, 842 (Fed.

Cir. 5 2009), aff’d, 563 U.S. 776 (2011) (citing Speedplay, Inc. v. Bebop, Inc., 211 F.3d 1245, 1253 (Fed. 6 Cir. 2000); FilmTec Corp. v. Allied-Signal, Inc., 939 F.2d 1568, 1572-73 (Fed. Cir. 1991)). But 7 the PIIA does not definitively resolve the question of whether the Code meets the contractual 8 definition of “work product” nor whether the contract also assigned code Mr. Smith wrote before 9 signing the PIIA.

At the pleading stage, the Court must draw all reasonable inferences in Mr. 10 Smith’s favor and so cannot determine, as a matter of law, the Code was thereby vested to 11 Elastiflow and its assigns. 12 The “licensing” portion of the counterclaim, however, is not plausibly pled. “An author 13 gains ‘exclusive rights’ in her work immediately upon the work’s creation, including rights of 14 reproduction, distribution, and display.” Fourth Est.

Pub. Benefit Corp. v. Wall-Street.com, LLC, 15 586 U.S. 296, 300-01 (2019). “Before pursuing an infringement claim in court, however, a 16 copyright claimant generally must comply with § 411(a)’s requirement that ‘registration of the 17 copyright claim has been made.’” Id. at 301.

The requirement to register a copyright prior to 18 pursuing infringement “is akin to an administrative exhaustion requirement,” prior to enforcement 19 of ownership rights. Id. 20 Here, Mr. Smith does not plead he has satisfied the registration requirement in requesting 21 judgment that Plaintiff and others must obtain a license to use the Code.

As such, Mr. Smith’s 22 counterclaim, insofar as it appears to be a claim for enforcement of his copyright rights, is not 23 properly pled. 24 In his opposition brief, Mr. Smith for the first time

argues the declaratory judgment request 25 in paragraph 134 of his Answer is “merely asking the Court to make a determination under the 26 implied licensing doctrine as espoused in *Asset Marketing Systems, Inc. v. Gagnon*, 542 F.3d 748 27 (9th Cir.

2008).” (Dkt. No. 33 at 10.) Thus, he claims, the Answer seeks adjudication of “whether 1 Ud.) But the Answer does not plead implied license in a way that gives notice to Elastiflow of the 2 implied license issue he now argues is the basis for his counterclaim. Cf *Bell Atl. Corp. v. 3 Twombly*, 550 U.S. 544, 555 (2007) (“Federal Rule of Civil Procedure 8(a)(2) requires only ‘a 4 || short and plain statement of the claim showing that the pleader is entitled to relief,’ in order to 5 ‘give the defendant fair notice of what the... claim is and the grounds upon which it rests.’”) 6 (quoting *Conley v. Gibson*, 355 U.S. 41, 47 (1957)).

And further, Mr. Smith does not show how 7 || his allegations can be understood as such. 8 Because Mr. Smith does not properly plead he registered the Code, the licensing claim is 9 not adequately pled. 10 11 Mr. Smith plausibly pleads a declaratory judgment counterclaim for copyright ownership 12 || but not for licensing.

Accordingly, the Court dismisses the second counterclaim insofar as it seeks 5 13 || judgment that Elastiflow or third parties require a license to use the Code. CONCLUSION 3 15 The Court rules as follows: a 16 e The motion to dismiss Mr. Germain’s counterclaim and Mr. Smith’s first counterclaim is DENIED. 18 e Plaintiff’s motion as to Mr. Smith’s second counterclaim is DENIED except insofar as 19 it seeks judgment that Plaintiff or third parties require a license to use the Code.

20 Any amended Answer(s) is to be filed no later than July 1, 2025 unless the parties stipulate 21 to a different deadline. 22 This Order disposes of Docket Nos. 28 and 31. 23 IT IS SO ORDERED. 24 Dated: June 5, 2025 26 ne ‘ACQUELINE SCOTT CORLEY United States District Judge 28